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FM AMEMBASSY KUALA LUMPUR
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RUEHNE/AMEMBASSY NEW DELHI 0893
RUEHGV/USMISSION GENEVA 1697
RUEATRS/DEPT OF TREASURY WASHINGTON DC
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UNCLAS SECTION 01 OF 02 KUALA LUMPUR 000303

SENSITIVE
SIPDIS

STATE PASS USTR -- WEISEL AND BELL
STATE PASS FEDERAL RESERVE AND EXIMBANK
STATE PASS FEDERAL RESERVE SAN FRANCISCO TCURRAN
SINGAPORE FOR SUSAN BAKER
USDOC FOR 4430/MAC/EAP/M.HOGGE
TREASURY FOR OASIA AND IRS
GENEVA FOR USTR

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SUBJECT: MALAYSIAN PM LIBERALIZES SOME SERVICES SUBSECTORS

REF: KUALA LUMPUR 297

11. (U) SUMMARY: Malaysian Prime Minister Najib Razak today announced a services sector reform package exempting firms in 27 subsectors from a government requirement that each firm maintain a minimum 30 percent ownership stake by ethnic Malays and indigenous groups ("bumiputera"). Najib said this was being done to improve Malaysia's competitiveness in the "softening" global economy and to attract more foreign investment. (Note: Foreign direct investment in 2009 is projected to be half the amount of 2008 inflows, and economists have been calling for liberalization, especially of the services sector, as Malaysia's best hope of surviving the global economic crisis (reftel). End note.) Najib said these liberalizations were in line with what ASEAN countries were doing, according to press reports. He also promised more liberalization to come in the financial services sector, with details to be announced next week. One professor of economics at a local university told Econoff that, although the impact on the economy might not be significant, the move breaches an important psychological barrier as a concession to non-bumiputera.

12. (SBU) Comment: PM Najib's long-awaited announcement on services covers only 27 relatively insignificant subsectors in terms of the greater Malaysian economy, and of little import to most U.S. businesses currently operating in Malaysia. However, the announcement is important because it sets a precedent for cutting back on Malay preferences in the interests of improving Malaysia's competitiveness. If Najib can carry out this reform without creating a backlash from the Malay majority, he will have set the stage for greater reforms down the road. If successful, this measure also could undermine the political opposition, who have long called for the removal of pro-Malay policies and have used this issue as one of their key platforms. At the same time, by keeping the scope of the reforms small Najib hopes to assure the bumiputera that any steps taken to liberalize the economy by his government will be gradual. If these measures do not generate a substantial backlash, Najib is likely to continue testing the waters to see how far and how fast to go on future economic liberalizations. The degree of movement is small, and far from the broad-based opening of services that we have sought in the FTA negotiations, but it

is a start. Next week's anticipated announcement on financial sector reform would be another incremental step in this economic opening process. End summary and comment.

13. (SBU) On April 23 Prime Minister Najib Razak outlined 27 sub-sectors of the computer, health, social services, tourism, transportation, recreation, business, and shipping services industries which would no longer be subject to a 30 percent bumiputera ownership requirement (see list below). Dr. Suresh Narayanan, Professor of Economics at University Sains Malaysia in Penang and a renowned expert in political economy, told Econoff that the move "breached an important psychological barrier" as a "concession to non-Malays." He did not doubt that the subsectors likely represented only a small piece of the Malaysian economy, but said Najib's willingness to take such a bold step in beginning the process of dismantling preferences for Muslim Malays was important. Pointing out that the services sector was the fastest-growing part of the Malaysian economy, he said liberalization was the only way to maintain Malaysian competitiveness in the "global value chain." Najib likely was just testing the waters, he explained, to see what the response would be by "pro-quota Malays" whose reaction would be an indicator of Najib's level of influence. "The immediate economic impact is beside the point," Dr. Narayanan said, describing liberalization as "the only way to go." The only thing up for debate was "the speed and manner of liberalization, not the question of yes or no." Fortunately, Najib appears to realize that and has begun to act on it.

THE LIST

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14. (U) Following are the sub-sectors no longer subject to the the 30 percent bumiputera ownership requirement:

COMPUTER AND RELATED SERVICES:

- Consultancy services related to the installation of computer hardware.
- Software implementation services: systems and software consulting services, systems analysis services, systems design services, programming services, and systems maintenance services.
- Data processing services: input preparation services, data processing and tabulation services, time sharing services, and other data processing services.
- Database services.
- Maintenance and repair services of computers.
- Other services: data preparation services, training services, data recovery services, and development of creative content.

HEALTH AND SOCIAL SERVICES

- All veterinary services.
- Welfare services delivered through residential institutions to the elderly, the handicapped, and children.
- Child day-care services, including day-care services for the handicapped.
- Vocational rehabilitation services for the handicapped.

TOURISM SERVICES

- Theme parks.
- Convention and exhibition centers with a seating capacity of more than 5000.
- Travel agencies and tour operators.
- Hotel and restaurant services, including other food and on-site beverage services, for four- and five-star hotels.

TRANSPORT SERVICES

- Class C freight transportation (private carrier license to transport own goods).

SPORTING AND RECREATIONAL SERVICES

-- Sporting services (defined as sports event promotion and organization services).

BUSINESS SERVICES

-- Regional distribution centers.

-- International procurement centers.

-- Technical testing and analysis services: composition and purity testing and analysis; testing and analysis of physical properties, integrated mechanical and electrical systems, and technical inspection services.

-- Management consulting services: general, financial (excluding business tax), marketing, human resources, production and public relations services.

RENTAL/LEASING SERVICES WITHOUT OPERATORS

-- Rental/leasing services of ships that excludes cabotage and offshore trades.

-- Rental of cargo vessels without crew (&bareboat charter8) for international shipping.

SUPPORTING AND AUXILIARY TRANSPORT SERVICES

-- Marine agency services.

-- Vessel salvage and refloating services.

LEGAL SERVICES FOR ISLAMIC FINANCE

-- Najib also announced that up to five foreign legal firms would be authorized to practice in Malaysia, but only to offer legal services related to Islamic finance. This would be part of Malaysia's push to make the country a global hub for Islamic financial services.

KEITH